1992 IMPLICATIONS of a SINGLE EUROPEAN MARKET

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IMPLICATIONS

OF A SINGLE EUROPEAN MARKET

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FOREWORD

The European Community (EC), with a GDP similar to that of the United States, is Canada's second-largest trading partner and source of investment and technology. Canadian companies therefore have a particular interest in the completion of the European Community's internal market. The goal of the Single Market program, or Europe 1992 as it is often called, is the complete removal of barriers to the movement of goods, services, labour and capital within the 12 states of the Community to create a dynamic and rapidly growing market.

External Affairs and International Trade Canada (EAITC) is pleased to present this study as part of a series of reports on the implications of a Single European Market on Canada's trading, investment and technology interests. The areas to be covered by these reports include (in publication order):

Agriculture and Food Products
Consumer Goods and Cultural Industries
Telecommunications and Computers
Automotive Industry
Minerals and Metals
Forest Products
Defence, Aerospace and Transportation
Specialty Chemical Products, New Materials, Pharmaceuticals and Biotechnology
Industrial Products and Services
Financial Services
Fisheries Products
Professional and Consulting Services

These reports, prepared by Raymond Chabot International Inc., BIPE (Bureau d'Informations et de Prévisions Économiques) and Informetrica Ltd. analyse the trends, export impact, competition, investment implications and technological acquisitions arising from the EC Single Market of 1992.

This series of reports complements an earlier study published by EAITC, *1992: Effects on Europe*, which details the major economic and trade effects of the integration. Now in its third printing due to popular demand, the report provides a clear picture of the unification legislation and implementation measures and the general expectations and response of European industry.

Following the publication of these sectoral reports, EAITC will focus on subsectors of Canadian industry in which particular opportunities arise from the Single Market. These studies will go into much more detail on the trade ramifications specific to each subsector.

Together these reports, the overview presented in *Effects on Europe*, the sectoral analyses of this series of studies, and the subsector details of the next phase of Europe 1992 reporting, are not simply an information base for Canadian business people, but can be seen as a call to action. Europe 1992 is happening now. It will affect the way we do business. We have to know about it. And we have to plan to profit from it.

CONTENTS

LIST OF ACRONYMS AND ABBREVIATIONS 8

EXECUTIVE SUMMARY 9

1. THE CANADIAN FOREST PRODUCTS INDUSTRY 12

1.1 Overview 12

1.2 The Lumber Sector 12

1.3 Market Pulp Sector 12

1.4 Newsprint and Printing Paper Sector 13

1.5 Structural Wood Panel Sector 13

2. CANADIAN TRADE AND INVESTMENT WITH THE EC 15

2.1 Overview 15

2.2 Canadian Market Pulp Exports to the EC 15

2.3 Canadian Newsprint and Other Paper Exports to the EC 16

2.4 Canadian Lumber and Wood Product Exports to the EC 16

2.5 Canadian Exports of Softwood Plywood to the EC 17

2.6 Comparison with Nordic Competitors 17

3. THE EC FOREST PRODUCTS SECTORS 19

3.1 EC Forestry Sector 19

3.2 Timber Industries in the EC 19

3.3 Pulp, Paper and Board Manufacturing in the EC 20

a) Paper and Board Sector 20
b) Market Pulp Sector 21

4. EUROPE 1992: FOREST PRODUCT SECTOR DEVELOPMENTS 23

4.1 Overview 23

4.2 Developments Affecting Wood Products 23

a) Construction Products Directive and Eurocode 5 23
b) Product Acceptance 24

4.3 Developments Affecting Pulp and Paper 24

a) Product Standards in the Pulp and Paper Industry 24
b) Economic Growth 24
c) Restructuring in the EC Paper Industry 25

5. EUROPE 1992: IMPACT ON THE CANADIAN FOREST PRODUCTS SECTOR 27

5.1 Overview 27

5.2 Softwood Lumber 27

5.3 Panel Products and Other Wood Products 27

5.4 Market Pulp 28

5.5 Newsprint and Other Paper 29

6. EUROPE 1992: STRATEGIES AND ACTIONS BY CANADIAN FIRMS 30

6.1 Maintain Competitiveness 30

6.2 Move into New Product Areas 30

6.3 Track the Strategies Adopted by Nordic Competitors 30

6.4 Anticipate Developments 31

6.5 Follow Developments in European Legislation 31

6.6 Evaluate EC Investment Opportunities 31

7. CONCLUSION 33

APPENDICES 35

A. Leading Canadian Exports to the EC in 1988 36
B. Canadian Forest Products Exports 37
C. Canadian Forest Products Exports to the EC 38
D. The EC Newsprint Quota 39
E. Pinewood Nematode, Kiln-Drying, and the EC Market for Softwood Lumber 41
F. Major Canadian Forestry Exports and Competition 43
G. EC Forest Products Imports 47
H. European Standards on Timber 48
I. EC Forestry Action Program 52
J. Recent Investment Activity in the EC Forest Products Industry 54

List of Tables

1. Principal Canadian Forest Product Exports to the EC, 1984-88 15
2. 1985 EC Timber Production 19
3. Number of Companies and Mills, EC 12 21
4. Production by EC Member State, 1987 22
5. EC Consumption of Newsprint 25

LIST OF ACRONYMS AND ABBREVIATIONS

BSI	British Standards Institute
CAEJ	Communauté des Associations d'Édition de Journaux de la CEE
CEE	Communauté économique européenne (European Economic Community)
CEN	Comité européen de normalisation (European Committee for Standardization)
CEPAC	Confédération Européenne de l'Industrie des Pâtes, Papiers et Cartons
EC	European Community
ECE	Economic Commission for Europe
ECU	European Currency Unit
EFTA	European Free Trade Association
EN	Evro Norm, or European standard
ENV	European pre-standards
FAO	Food and Agriculture Organization
GATT	General Agreement on Tariffs and Trade
MTN	Multilateral Trade Negotiations
OSB	Oriented strandboard
PWN	Pinewood nematode
SPF	Spruce-pine-fir
TC	Technical committee
TFC	Timber frame construction
WG	Working group

EXECUTIVE SUMMARY

Canada is the world's largest exporter of forest products. The EC is Canada's second largest market for forest products after the U.S. In fact over 30 per cent of all Canadian exports to the EC are forest products and in 1989, those were worth more than $3.3 billion. The principal export products, in order of sales value, were wood pulp, softwood lumber, newsprint, specialty papers and plywood.

Given the size and importance of Canada's forest product exports to the EC, the opportunities and risks posed by the EC's Single Market program, or Europe 1992 as it is often called, are clearly of considerable interest to Canadian producers.

Impact of Europe 1992

On balance, Europe 1992 is expected to have a positive overall impact on Canada's exports of forest products to the EC, although it may trigger some adjustment to production and marketing strategies in parts of the Canadian industry.

One of the key conclusions of this report is that the Single Market program will accelerate growth of the EC economy, and lead to increased demand for all categories of forest products. Moreover, the markets for many forest products in the EC still have considerable room for growth, since they often fall well short of North American levels. Even with aggressive reforestation programs, the EC will continue to be a net importer of forest products in the long term. Consequently, the volume of traditional Canadian forest product exports to the EC is expected to remain steady or to increase. In addition, the EC offers significant scope for market development and diversification.

Nevertheless, some of the Europe 1992 developments give cause for some concern for certain Canadian export products. These are:

The Construction Products Directive and Eurocode 5. The aim of this directive is to establish essential requirements for construction projects and products. It also provides authority for development and implementation of European standards for construction products. Eurocode 5, "Common Unified Rules for Timber Structures," will represent building codes.

Canadian exporters are concerned that the resulting new European standards and grading rules could incorporate European-focused requirements that Canadian shippers might find difficult or uneconomical to meet.

Fire test standards. The newly evolving European fire test standards are another development that may impact on the EC market for wood products.

Testing and certification. It is not yet clear what arrangements the EC would make to grant recognition of Canadian certification and testing of wood products.

Industrial restructuring. The national European paper industries are collectively growing, and the ongoing wave of mergers and acquisitions will continue. Since an assured and long-term supply of market pulp is imperative for their success, EC manufacturers will strive to secure their pulp supply. This is likely to produce increasing pressure from Europe for ownership of, or affiliation with, Canadian

pulp mills and may impact on the long-term potential of certain Canadian paper exports.

Other Market Access Issues

Other developments concerning phytosanitary and environmental regulations and the EC's forestry action program in the Community could cause disruption to some Canadian forest products exporters:

Phytosanitary issue. Pressure continues to mount in the Community for the imposition of a kiln-dried requirement on Canadian exports of "green" lumber products. The EC perceives a threat of infestation from pinewood nematode. (See Appendix E.)

Environmental regulations. Environmental issues are becoming more important in the EC. A ban on pulp produced by processes exceeding certain emission requirements is a potentiality that must be considered.

Consumers in both the EC and North America are demanding greater use of recycled fibres. The result is a profound impact on producers and markets. Some Canadian producers have already developed recycling capacity; others will have to follow.

The EC Forestry Action Program. A new Forestry Action Program has been adopted by the Council to provide increased funding of the development, protection and enlargement of the Community's forests. In addition, significantly increased lumber supply from certain EC countries is expected in the short term due to accelerated harvest of acid-rain damaged forests.

Strategies and Actions by Canadian Firms

These developments have important implications for Canadian firms. It is important to realize that in the international environment of the 1990s, a more efficient and internationally competitive industrial base will be critically important for future Canadian success in all export markets, including the EC, as will ongoing efforts to ensure an adequate fibre supply.

Canada's principal forest product competitors in the EC, the Nordic countries, are often leaders in technology, product innovation and international marketing and enjoy preferential access to the EC. They have also been particularly active investors, engaging in merger and acquisition activity throughout all forest industry sectors in the EC.

New competition from non-traditional suppliers is also increasing in a number of product areas.

Clearly, therefore, a priority for Canadian industry will be the continuous modernization and rationalization of the industrial base, as well as the promotion of new and alternative technologies/products and markets. This would involve both the modernization of existing facilities and the construction of new plants.

An investment strategy must clearly be considered. The ongoing restructuring will establish companies' market positions not only in the European Community but also in the much broader Europe which is evolving.

The prospects for the Canadian forest industry in the EC are good. Continued success will depend largely on how the Canadian industry deals with these issues.

1. THE CANADIAN FOREST PRODUCTS INDUSTRY

1.1 Overview

Canada's 436 million ha of mainly coniferous forests are the second largest in the world, exceeded only by those of the U.S.S.R. The huge Canadian forest industry accounts for one-quarter of all internationally traded forest products. Canada is the world's largest exporter of sawn softwood, softwood pulp and newsprint.

About 5 000 producers make up the mosaic of Canada's forest industry from small sawmill operators to very large diversified corporate groups. The industry has more than quadrupled in size over the last 40 years, and annual shipments have reached a value of more than $24 billion. It directly employs about 300 000 people from coast to coast.

The major product groups of the forest products industry that are exported are softwood lumber, wood panels, pulp, newsprint and specialty papers. Other sectors include packaging material, converted wood products, and shakes and shingles.

1.2 The Lumber Sector

Canada produces a wide variety of both softwood and hardwood lumber products. Most of the exported lumber is cut from softwood species. Canada is the world's largest exporter of softwood lumber, with some 50 per cent of international trade and 15 per cent of world production. Lumber production totalled an estimated 59.3 million m^3 in 1988. The total value of shipments was an estimated $6 billion, of which some $5.2 billion was exported.

The softwood lumber industry is based on an extensive renewable resource and can be divided into two major sectors: the spruce-pine-fir (SPF) sector, which extends from the interior of British Columbia to Newfoundland and accounts for about 77 per cent of total production; and the B.C. coast sector comprising the hemlock-fir, Douglas fir and western red cedar subsectors, which account respectively for 11, 6 and 5 per cent of total output. Eastern pine, western Sitka spruce and yellow cedar are specialty species subsectors and account for the 1 per cent balance. About 90 per cent of Canada's softwood timber reserves are owned and administered by the provinces.

Regionally, production is located as follows: British Columbia (61 per cent), Quebec (20 per cent), Ontario (9 per cent), Alberta (5 per cent) and New Brunswick (3 per cent). The remaining 2 per cent is produced in the other provinces and territories. In British Columbia, production is about 72 per cent SPF and 28 per cent coastal species. Other provinces produce almost exclusively SPF lumber. The industry is widely dispersed across Canada in some 1 325 establishments, according to Statistics Canada. However, this figure does not include a large number of very small sawmills which often are operated only on a periodic basis and which in aggregate account for an estimated 1 per cent of total sector lumber output.

Approximately 225 major companies operating about 365 sawmills account for more than 95 per cent of total production. An estimated 25 large integrated forest products companies account for about 50 per cent of total production; however, no one company dominates the market.

1.3 Market Pulp Sector

Market pulp refers to pulp that is dried and sold to another paper mill for additional processing, rather than pulp formed directly into paper at the plant where it is produced. In Canada, over 40 per cent of the pulp produced is sold

as market pulp while the remaining is converted into paper and board by the integrated mills.

Canada is the largest producer of market pulp with more than one-quarter of world capacity. The three major producing areas account for 70 per cent of the world's chemical paper-grade market pulp capacity. In descending order they are Canada (26 per cent), Nordic countries (22 per cent), and the United States (22 per cent).

The market pulp sector is divided into three categories: chemical pulp (90 per cent of total capacity), mechanical pulp (7 per cent) and dissolving and special alpha pulp (3 per cent). Chemical pulp is subdivided into two categories: kraft pulp or sulphate (96 per cent) and sulphite pulp (4 per cent).

There are 48 mills producing market pulp in Canada that are owned by some 34 companies. In 1986, 12 mills representing approximately 24 per cent of total capacity were producing market pulp only. The remaining mills were paper and board producers but had pulp in excess of their own needs. However, the trend is toward more integration of operations.

The sector is estimated to be 65 per cent Canadian-owned. It is heavily concentrated in British Columbia, which had 51 per cent of total Canadian capacity in 1986. New Brunswick, Ontario and Quebec accounted for an additional 12, 13 and 14 per cent respectively.

Of the 10 million t of market pulp produced in Canada in 1988 2 million t were sold domestically, mostly in Quebec and Ontario. The balance was exported. The major export markets are the United States (48 per cent), the European Community (25 per cent), Asia (21 per cent), and the remaining 6 per cent distributed among all other regions.

1.4 Newsprint and Printing Paper Sector

The newsprint and uncoated groundwood printing or specialty papers industry consists of newsprint used in the publication of newspapers, and specialty papers employed in the printing of newspaper advertising inserts, catalogues, directories or paperbacks. The sector is highly export-oriented with over 80 per cent of the products exported, primarily to the United States. Other markets include the EC (5 per cent), Latin America and the Caribbean (5 per cent), and Asia (5 per cent). There are no imports. The primary exporting competitors are Sweden and Finland.

The total Canadian capacity is approximately one-third of world capacity. In 1986, shipments totalled 10.5 million t. Quebec has 44 per cent of productive capacity, Ontario 21 per cent, British Columbia 17 per cent, the Atlantic provinces 16 per cent and the Prairie provinces 2 per cent.

The sector is composed of 43 mills, owned by 21 companies. Few companies produce newsprint exclusively; most also produce other papers, market pulp, lumber and container board or a combination of these products.

1.5 Structural Wood Panel Sector

The structural wood-based panel products industry is made up of two major subsectors: softwood plywood and waferboard/oriented strandboard (OSB).

Softwood plywood and waferboard/OSB compete for many but not all end uses and are generally sold in standard-sized panels used primarily for construction, packaging and industrial applications. Softwood plywood, including upgraded specialty products such as overlaid concrete-form plywood, is used extensively in engineered structures, as

well as industrial and packaging applications in domestic and offshore markets. Waferboard/OSB is used predominantly in the residential and commercial construction sector in both Canada and the United States. At present, only limited volumes of waferboard/OSB are exported offshore and very little of the product is upgraded.

In 1988, the value of shipments for the sector totalled an estimated $950 million, which represented about 6.5 per cent of total wood products shipments. About 80 per cent of softwood plywood and some 50 per cent of waferboard/OSB is consumed in the domestic market.

Exports in 1988 were valued at $335 million and included sales of waferboard/OSB and softwood veneer to the United States, and softwood plywood sales to the EC and Japan. Exports represented about 31 per cent of the value of all structural panel product shipments in 1988. Plywood imports have not generally been a significant factor in the Canadian market, due mainly to differences in product standards, high Canadian tariffs, and currency exchange rates unfavourable to imports into Canada.

2. CANADIAN TRADE AND INVESTMENT WITH THE EC

2.1 Overview

Canadian exports of forest products to the EC are very significant, totalling about $3.3 billion in 1989, which represents 30 per cent of total Canadian exports to the EC. (See Appendix A.)

The EC is Canada's second largest export market for forest products after the United States. Exports of wood pulp, newsprint and other paper products are estimated to have totalled $2 550 million in 1989, while wood products (lumber and plywood) totalled over $750 million. (See also Appendix B.)

The year 1988 was a banner one for exports of Canadian forest products to the EC. For example, Canadian softwood lumber exports grew by 28 per cent over 1987, plywood exports increased by 20 per cent and newsprint increased by 27 per cent. Estimated exports for 1989 once again showed gains. (See also Appendix C.)

The pattern of forest products trade between Canada and the EC is governed by:

- the relative advantage in the availability and cost of raw materials enjoyed by Canada in the major forest products sectors;
- access barriers in the EC, in the form of tariffs for higher value-added commodities and finished products, and some standards regulations;
- market barriers, including demand for different product features than North America, and the logistics of selling to a culturally diverse market; and
- the effect of foreign exchange fluctuations.

2.2 Canadian Market Pulp Exports to the EC

Canadian exports of market pulp to the EC were worth almost $2 billion in 1989.

TABLE 1

Principal Canadian Forest Product Exports to the EC, 1984-88
(C$ millions)

	1984	1985	1986	1987	1988	1989e
Wood pulp	985	794	1 040	1 435	1 689	1 980
Softwood lumber	274	200	355	575	733	670
Newsprint	281	216	277	347	443	394
Softwood plywood	109	104	8	87	87	60

Source: Statistics Canada.
e - estimates

Pulp is a commodity that enters the EC without tariffs or quotas. Major competitive factors include foreign exchange rates, fibre quality, fibre costs and production efficiency. The edge enjoyed by Nordic producers in production efficiency is offset by Canada's lower fibre costs. Hence, foreign exchange is the key factor governing trade. In recent years currency movements favourable to Canada have allowed the Canadian industry to meet Nordic competition effectively.

2.3 Canadian Newsprint and Other Paper Exports to the EC

Newsprint exports to the EC from Canada in 1989 are estimated at almost $400 million. Fine paper exports were worth an additional $170 million.

For non-EFTA (European Free Trade Association) exporters duty-free access is limited to 650 000 t, of which 600 000 t has been set aside for Canada. A tariff of 9 per cent applies on unwaterlined imports above quota. In 1989 the quota was exceeded for the first time. A supplement of 80 000 t was put in place by the European Commission as a result of requests from EC publishers (30 000 t of this were for Canada; the rest was available to all non-EFTA suppliers). Newsprint shipments to the EC in 1989 are estimated at over 670 000 t. (See Appendix D.)

A continuing complicating factor in the quota arrangements is waterlining. The EC tariff definition of newsprint includes a waterlining requirement. The waterlining is intended to identify the paper to ensure that it is only used for newspapers. A deliberate visual flaw, the waterline reduces the value of the product and in most cases is unacceptable to the newspaper publishers. However, the waterlining requirement for tariff-free entry under the quota has been waived by most countries.

Another potential non-tariff, standards-related barrier is the new *definition of newsprint*, which includes surface smoothness and mechanical pulp furnish requirements. This definition could pose problems since there is no internationally accepted method of testing pulp content of paper. Moreover, the recommended approach for testing smoothness also poses problems.

2.4 Canadian Lumber and Wood Product Exports to the EC

Unprocessed wood exports to the EC enter duty-free, whereas a duty of 4 per cent is levied on planed lumber (which accounts for the bulk of Canadian exports in this category) and a duty of 6 per cent levied on window and door frames from Canada. Canadian softwood lumber exports to the EC were worth over $650 million in 1989. A significant portion of Canadian lumber shipped to the U.K. is rough.

Over 60 per cent of all Canadian lumber exports to the EC are destined for the U.K. The U.K. and Western Europe have traditionally been prime offshore markets for the promotion of Canadian timber frame construction (TFC). The degree of acceptance of TFC versus traditional masonry construction in EC countries has been modest but is increasing. Canada has aggressively promoted TFC in the U.K. and continental Europe since the early 1960s in direct competition with Nordic producers. On a percentage basis TFC has been most successfully introduced to the U.K., followed by Holland, France and Belgium. It has been least well established in West Germany and Italy. These efforts have met with resistance from entrenched interest groups.

Timber frame construction is not currently acceptable in some building codes in some Member States and this affects the potential market for softwood lumber.

Pressure continues to mount in some quarters in the Community for the imposition of a kiln-dried requirement on Canadian exports of "green" forest products. The EC perceives a possible threat to their forests from pinewood nematode. (See Appendix E.)

The basic legal requirement in all Member States is for a phytosanitary certificate. However, Canada has developed an enhanced mill certification system for "green" softwood lumber which includes debarking and the grading out of lumber with bore holes. A bilateral agreement with the U.K. permits the use of mill certificates in lieu of phytosanitary certificates. Other Member States have also informally allowed the use of mill certificates. To date only Ireland has imposed a kiln-dried requirement. The EC has yet to rule whether the mill certification procedure will address its plant health concerns.

However, if kiln drying is made mandatory across the EC, this could have a significant effect on the competitiveness of lumber imports from Canada in the EC and the ability of different regions of Canada to supply certain products to the European market.

2.5 Canadian Exports of Softwood Plywood to the EC

Canada exported softwood plywood worth an estimated $60 million in 1989. The EC has a 650 000 m^3 duty-free quota on imports of softwood plywood. Imports above the quota face a 10 per cent duty.

Since overall imports of plywood into the EC exceed one million m^3, the effect of the duty-free quota is to distort the pattern of shipments to the EC, causing an influx of the product early in the year, as each importer endeavours to import as much plywood as possible duty-free before the quota is exhausted.

Building codes and product standards in the EC inhibit the import of certain Canadian panel products such as waferboard.

2.6 Comparison with Nordic Competitors

Global trends affecting the forest industry have had their greatest impact in Western Europe. These trends include constraints on available fibre, rising labour costs, higher energy costs and growing concern about the environment. As a result Canada's principal competitors for the EC import market, the Nordic countries (principally Sweden and Finland) have been forced to take the lead in developing and installing technology to reduce the fibre content of their products, reclaim effluent chemicals, and reduce pollution from pulping operations. Over the past decade, they have also consistently innovated to increase the value added to their products. (See Appendices F and G.)

Although forests in the Scandinavian countries are carefully managed, availability of wood fibre is emerging as the principal constraint on the Nordic forest industry.

As members of EFTA, the Nordic countries enjoy tariff-free access to EC markets, and sit on EC standards committees. Moreover, Scandinavian companies have invested heavily in EC manufacturing capacity.

With the exception of coastal B.C., forests in Canada are similar to those in Scandinavia with relatively small diameter wood, with a long growing cycle. Canada still enjoys a fibre cost advantage over EFTA, but is no longer the lowest cost fibre producer in the world. Even so, a relatively cheap, high quality, renewable fibre resource remains a key strength of the Canadian industry. Energy costs are also still relatively low.

Considerable new investment was made over the past few years, but the Canadian industry stills lags behind Nordic producers in terms of technology and new facilities.

In contrast with their Scandinavian competitors, there has been relatively limited investment by Canadian firms in the EC. (See Appendix E.)

3. THE EC FOREST PRODUCTS SECTORS

3.1 EC Forestry Sector

Woodland covers less than a quarter of the European Community, i.e., almost 54 million ha. A fifth of this area is, however, occupied by brushwood, stunted trees, shelter belts and other forest too sparse to be suitable for timber production.

The largest total wooded areas are to be found in France, with 14.7 million ha, and Spain, with 12.5 million, between them accounting for half of the total wooded area of the EC. Together with Germany, Greece and Italy, the total rises to 87 per cent. The seven other members of the EC share the remainder.

More than half (58 per cent) of European forests are privately owned (by individuals, companies, institutions, etc.). Only 27 per cent of the surface area is state-owned and the remainder (15 per cent) belongs to other public bodies.

In 1985, timber production stood at 105 million m^3, or only 3 per cent of world production. (For a breakdown by EC country, see Table 2.) The EC exports 10 million m^3 of rough timber to third countries, but has to import 15 million m^3. Taking account of requirements for timber and wood-based products such as sawn wood, panelling, pulp, paper and board, the EC's forest products sector deficit is very substantial, and is second only to the EC deficit in petroleum products.

3.2 Timber Industries in the EC

The timber industry in the EC includes sawing and basic processing of wood for the furniture sector, and woodworking. According to the study by the Economic Commission for Europe (ECE) and the Food and Agriculture Organization (FAO) *European Timber Trends and Prospects to the Year 2000 and Beyond*, demand for wood products will increase in coming years.

TABLE 2

1985 EC Timber Production

Belgium/Lux.	2.9%
Denmark	2.2
Germany	27.6
Greece	2.5
Spain	13.0
France	28.6
Ireland	1.0
Italy	8.7
Netherlands	1.0
Portugal	8.8
U.K.	3.7
EC	100.0%

Source: European Commission, *Europe in Figures.*

At present, the sector is still encountering a large number of technical barriers to intra-EC trade; nationally oriented standards that have already long been in existence; major differences in the procedures for technical approval; various regulations related to specific aspects of use, such as the fumes from glue components and moisture-resistance, etc. In light of the integration of the EC market in 1992, the sector is therefore involved in discussions on the implementation in the short term of European standards and technical reference documents (directives on building products, certification, Eurocode 5, CEN standards, etc.). This technical integration should result in increased intra-EC trade.

The internal market of the EC is dependent on raw materials and wood products from other countries such as Finland, Sweden, the U.S.S.R., the United States and Canada. Extra-Community imports represented a total of 13 per cent of the EC market in 1987.

3.3 Pulp, Paper and Board Manufacturing in the EC

The EC's pulp and paper industry is a dynamic sector, which has enjoyed steady growth at or slightly above the rate of increase in Community GDP. Rapid developments in publishing, information technology and food packaging and distribution have stimulated growth in the industry.

In recent years, the industry has managed to successfully meet strong international competition, both by slowing the advance of import penetration of paper and board in internal EC markets and, in particular, by rapidly expanding its exports to non-EC countries.

The EC's paper and board imports from third countries accounted for about 34 per cent of world imports, while its exports account for almost 6 per cent of total world trade. Trade in market pulp also results in a net external deficit.

The EC paper industry receives practically no tariff protection, certainly with respect to pulp and effectively with respect to newsprint. Almost 90 per cent of all imports enter duty-free, mainly from EFTA countries, but also from Canada and other GATT and non-GATT countries, and from developing countries, notably Brazil.

a) Paper and Board Sector

Paper and board production has grown steadily since the recession of 1981-82 and this growth is projected to continue into the 1990s.

However, demand for these products has grown faster than EC production. Therefore, the domestic market share of the EC industry has declined and imports, often of grades not produced in volume within the EC, have increased.

Imports of paper and board from outside the EC accounted for about 31 per cent of consumption in 1987, up from 27 per cent in 1980. In 1987 the net external deficit in paper and board was 11.3 million t, valued at 6.6 billion ECUs (European Currency Unit).

Imports are predominantly from the Nordic countries and North America, and are concentrated in lower value-added bulk or "commodity" grades of paper and board. This is easily confirmed by the large difference in average current value per tonne between intra-EC trade and imports; i.e., 849 ECUs per tonne and 656 ECUs per tonne, respectively, in 1987.

The import penetration rate is highest for kraftliner (77 per cent) and newsprint (60 per cent). These two "commodity" grade sectors alone account for almost 5.7 million t or 41 per cent of all EC imports from third countries.

Most EC exports are in high value-added grades such as coated graphic papers (a 13 per cent export rate in 1987) and folding boxboard (11 per cent export rate). These grades compete successfully on world markets, mainly on the basis of quality.

b) Market Pulp Sector

For market pulp, the EC represents by far the world's largest single market. The 8.5 million t imported in 1987 was almost 39 per cent of total world trade.

Dependence on imports of market pulp (a 74 per cent import rate) constitutes one of the industry's principal weaknesses, as many mills are either not integrated or only partly integrated with pulp production. This dependence is, however, somewhat compensated by the excellent availability of wastepaper, due in large measure to the EC's high urban population, which facilitates collection.

There were 830 companies active in the industry in 1987, operating a total of 1 032 pulp, paper or board mills.

While the number of small mills has decreased by 4 per cent to 274, the number of large mills (over 100 000 t/year capacity) has increased 5 per cent to 81. These mills, representing only 8 per cent of the EC's total operating units, account for an estimated 35 to 40 per cent of total EC production.

Major differences exist between Member States in the average size of mills and machines.

TABLE 3

Number of Companies and Mills, EC 12

	Paper and board		Market pulp	
	Number of companies	Number of mills	Number of companies	Number of mills
1980	961	1 220	23	29
1981	932	1 179	22	28
1982	909	1 158	22	28
1983	871	1 098	23	28
1984	848	1 068	23	29
1985	831	1 037	23	29
1986	818	1 014	23	29
1987	806	1 003	24	29

Source: Confédération Européenne de l'Industrie des Pâtes, Papiers et Cartons (CEPAC).

TABLE 4

Production by EC Member State, 1987

(Million ECU)	Paper and board	Market pulp	Total
Belgium/Luxembourg	1 007	113	1 120
Denmark	221	39	260
Germany	6 273	74	6 347
Greece	253		253
Spain	1 983	225	2 208
France	3 854	357	4 211
Ireland	19		19
Italy	3 537	107	3 644
Netherlands	1 360		1 360
Portugal	399	627	966
United Kingdom	2 500		2 500
Total EC	**21 346**	**1 542**	**22 888**

Source: CEPAC.

Production of the various grades of pulp and paper is also unevenly distributed. Market pulp production is concentrated in Portugal, Spain, France and Belgium. Newsprint is made mostly in Germany and now the U.K.; coated graphic papers in Germany, France and Italy; kraftliner mostly in France; uncoated graphic papers in Germany, the U.K., Italy and Spain, to give but a few examples.

This specialization of production is also reflected in the structure of trade, both intra- and extra-EC.

The dependence on imports of paper and board from outside the EC varies greatly among Member States.

4. EUROPE 1992: FOREST PRODUCT SECTOR DEVELOPMENTS

4.1 Overview

The 1992 program will accelerate growth in the EC. The 1988 Cecchini Report concluded that dismantling the remaining barriers to intra-European trade would raise the EC's output by 2.5 to 6.5 per cent. A new study by Professor Richard Baldwin of Columbia University argues that Mr. Cecchini and his researchers greatly underestimated the potential gains from Europe 1992. The growth in EC output may be as much as five times greater. This additional growth in turn will lead to increased demand for many categories of forest products from Canada, especially lumber and pulp and paper.

However, a number of specific EC directives and decisions related to the Single Market program could have a potentially disruptive impact on some segments of the Canadian forest products industry, especially export of wood products.

Another major development linked to the EC Single Market program that could affect the pattern of Canadian exports to the EC is the restructuring of the forest products sector across the EC. The impact of these developments is expected to be felt most strongly by Canadian pulp and paper exporters.

4.2 Developments Affecting Wood Products

The directive with the most significant potential impact on Canadian exporters to the EC, especially wood product exporters, is the Construction Products Directive. (See Appendix H.)

a) Construction Products Directive and Eurocode 5

The objective of this directive is to harmonize aspects of the design and construction of buildings and civil engineering structures throughout the EC by the end of 1992, and to remove internal EC barriers affecting construction materials and products.

The Construction Products Directive is designed to establish essential requirements with which all construction projects and the products which make up the structure must comply. The essential requirements include mechanical resistance and stability, safety in case of fire, hygiene, health and the environment, safety in use, protection against noise, and energy economy and heat retention. The directive also establishes ground rules for the development and implementation of harmonized European standards for construction products and gives general direction as to how other products will be certified as meeting the essential requirements.

Under the directive, a standing committee comprising representatives of all Member States is charged with overseeing the implementation of the directive and its related interpretive documents which include the harmonized standards. The responsibility for developing common standards, or building codes, is given to the European Committee for Standardization (CEN). CEN has established nine structural engineering Eurocodes. The code that relates most directly to the forest products sector is Eurocode 5, which deals with "Common Unified Rules for Timber Structures" and, in turn, with product and testing standards for wood.

The Eurocode, while an integral part of the process, is separate from the construction directive and the resulting product standards. The Eurocode will be a building code and not a product standard, although engineering criteria such as stress grading and lumber sizes are included. Although it will not be

identical to the Canadian code, it is being developed on the same basis, namely, limited states design.

Of concern to Canadian exporters is the fear that the resulting new European standards and grading rules could incorporate European-focused requirements that Canadian shippers might find difficult or uneconomical to meet. The newly evolving European fire test standards are another development that may impact on the EC market for wood products.

If standards regulations are established that are not consistent with Canadian production, this could lead to disruptions in the pattern of trade from Canada and require adjustments to production in exporting regions of Canada.

On the other hand, acceptance on an EC-wide basis of product standards and other regulations consistent with Canadian supply capability could open up a huge export market of 325 million people to Canadian industry. It is also hoped that the modernization of building regulations throughout the EC will lead to greater opportunities for the use of wood products.

b) Product Acceptance

It should be noted that the Construction Products Directive and Eurocode 5, dealing with timber structures, will not directly reference non-European forest product standards or grading rules. This, however, does not mean that Canadian standards and Canadian products will be unacceptable. Rather, access to the market for Canadian wood products may occur through specific product acceptance in one or more Member States. The basic principle will be mutual recognition: a product that is judged by one Member State to meet European standards, or, in the absence of European standards, to meet that Member State's own technical standards, must be allowed to be traded freely throughout the EC.

It is not yet clear what reciprocal requirements or other arrangements the EC would seek in order to grant recognition of Canadian certification and testing of wood products.

4.3 Developments Affecting Pulp and Paper

a) Product Standards in the Pulp and Paper Industry

With respect to the pulp and paper industry, product standards are mainly voluntary. The individual user and producer establish the precise characteristics of the pulp or paper depending on the end use requirements. Exceptions include those touching human health, such as paperboard for food packaging which may require virgin fibre for example. There will likely be increasing pressure in Europe, as in North America, to increase the requirement to use recycled material for pulp and paper products.

Overall, however, the actual impact of the regulations proposed under the Europe 1992 program should have very limited impact on Canadian pulp and paper exporters.

b) Economic Growth

The projections about added economic growth that will result from Europe 1992 are very important for the EC's printing industry, and in turn the demand for pulp and paper, since the main economic factors influencing the demand for printed products relate to levels of disposable income, growth in business activity, increases in the number of establishments and particularly the growth in advertising. Rapidly rising levels of advertising expenditure are a crucial element for the industry. In West Germany, for example, close to

two-thirds of print production is directly or indirectly related to advertising.

At present, per capita paper consumption in Europe varies widely from 200 kg in West Germany to 65 kg in Portugal and is far below the 300 kg level of the U.S. The main reason for the creation of the Single Market is to stimulate growth and, therefore, paper demand should benefit from faster economic development, particularly in the countries of Southern Europe.

Demand for paper in Europe should continue to increase rapidly, spurred by sustained economic growth generally and strong end-use markets in packaging, office systems, publishing, printing and advertising. Some growth will also result from other industries responding to the Single Market and using more paper and board for international distribution and advertising.

c) Restructuring in the EC Paper Industry

The increase in European demand for paper and the growth of international trade have stimulated a major expansion in papermaking capacity, mostly from new machines which have become larger, faster, more specialized, more sophisticated and more expensive.

In addition to building capacity, many companies have increased market share by buying capacity through acquisitions and mergers, often across national borders. As a result the paper industry in Europe has become more international and, at the same time, more concentrated and competitive.

The restructuring process in the European paper industry is just beginning and will be accelerated by the Single Market program.

TABLE 5

EC Consumption of Newsprint
(in tonnes)

	1982	1986
Belgium	196 490	193 795
Denmark	165 000	189 000
Germany	1 286 513	1 448 016
Greece	54 000	85 000
Spain	N/A	267 066
France	569 000	499 175
Ireland	34 827	29 710
Italy	315 000	366 000
Luxembourg	8 000	8 000
Netherlands	381 000	463 300
Portugal	N/A	37 500
United Kingdom	1 240 000	1 350 000
Total EC	**4 249 830**	**4 936 562**

Source: Communauté des Associations d'Édition de Journaux de la CEE (CAEJ).

Although there are no major non-tariff barriers to trade in paper within Europe, faster and cheaper cross-border transportation, greater standardization and so on will encourage still more emphasis on exports and imports. Distribution costs will assume greater importance; merchants in Europe will tend to become less national and more regional and specialist.

European paper producers are not large in comparison with their counterparts in North America and the Pacific Rim. Measured in terms of sales value, the top five paper companies in the world are all American, as are 8 out of the top 10, the other 2 being Japanese. Only 3 out of the top 15 are European and all those are Swedish. Although 17 out of the top 50 paper companies are European, they account for only one-quarter of sales. There is still plenty of scope for further concentration.

As the prospect of a single European market comes closer to reality, the EC becomes more attractive as an area for investment in papermaking. For it is not only the EC paper companies that are expanding, merging or acquiring each other, although this is certainly happening as can be seen from the activities of companies such as Feldmuhle (West Germany), and Saffa (Italy).

The EFTA producers are also investing heavily in the EC with new machines and acquisitions, of which the new Shotton newsprint machine with 1989 start-up owned by a Finnish company is the latest example. North American producers such as International Paper, James River and Scott Paper, have also been investing in Europe. We may soon see the first significant investment in Europe from the Pacific Rim countries, notably Japan and New Zealand.

As the process of mergers and acquisitions continues in the EC paper industry, an assured and long-term supply of market pulp will become an important consideration. EC manufacturers will, therefore, strive to secure their pulp supply through affiliated arrangements which in turn should have important implications for Canadian market pulp suppliers as well as Canadian exporters of some types of paper.

5. EUROPE 1992: IMPACT ON THE CANADIAN FOREST PRODUCTS SECTOR

5.1 Overview

Canada's success in increasing future sales of forest products in the EC market will continue to be highly dependent on exports of pulp, newsprint, lumber, panel products, and to a lesser extent certain other wood products.

5.2 Softwood Lumber

European consumption of sawn softwoods could become an increasingly important factor to Canadian lumber producers. Europe is a net importer of wood products and the outlook is for an increasing deficit in self-sufficiency.

This outlook results from a series of factors which will combine to increase forecast European sawn softwood demands:

- accelerated economic growth as a result of Europe 1992;
- slow but positive population growth;
- continued pressure on potential forestation sites by alternative uses;
- uncertainty of impact of acid rain on forest yields;
- increase in marketplace acceptance of wood over traditional building products such as brick, stone, etc.

The projected growth in consumption of softwood lumber by the FAO and the ECE suggest that though no dramatic growth is expected, the additional volumes that will be required by the end of the century are very significant.

Construction in general accounts for about 70 per cent of consumption of softwood lumber in the EC. The balance is mainly in a variety of industrial uses and furniture.

The European market is a net importer of softwood lumber. Despite projected increases in domestic production (for example in France, Germany, the U.K., Ireland, Belgium), a growing need for imports is also projected.

An uncertain factor, which could have a significant impact on the supply side of European timber, is acid rain. Already, additional supplies of affected but salvageable trees are being harvested in West Germany and milled in Scandinavia. If continued, this could result in short-term overcutting and consequent shortages of European-grown timber, leaving opportunities (not necessarily for Canada) for alternative suppliers of logs of finished lumber products in the long term.

The nature of the imported lumber that will be required is likely to change. The availability of lumber from Scandinavian and mainly EC sources will be primarily in the lower quality construction grades and below construction grades (pallets and packaging), and the nature of the resource will limit the ability of domestic sawmills to produce the higher grades for joinery or the longer lengths of wide widths.

The growth opportunities of Canada will lie in the supply of products that cannot easily be produced from the European forest resource. "Appearance" products making use of the high quality fibre available in Canada, and the larger and longer construction specifications, will offer the best potential.

5.3 Panel Products and Other Wood Products

The factors affecting panel product consumption in the EC are essentially similar to those influencing lumber demand. Construction is of vital

importance to the products supplied from Canada (i.e., softwood plywood and possibly waferboard/OSB).

Plywood for concrete forms has an established acceptance in Northern Europe and is likely to be increasingly used in Southern Europe, replacing lumber boards. In addition, timber frame housing is projected to continue its growth on the Continent.

Only minor volumes of softwood plywood are produced in Western Europe, and the major share of consumption is satisfied by imports from North America. The outlook for increased imports of softwood plywood is excellent since there is limited potential for increased domestic production.

The development of domestic supplies of OSB could have some negative impact on international suppliers. It is believed, however, that after some initial penetration into traditional plywood uses, the presence of locally produced OSB will tend to expand the overall use of structural boards and create new markets, so that additional plywood will still be required.

Higher value-added products, such as architectural millwork, have long-term potential but are limited by marketing complexities, and to some extent, by tariffs. Some limited opportunities in this area may exist.

Europeans, especially the Germans, use wood for decorative purposes in masonry houses. Often door and window frames are naturally finished, and wood panelling is popular. Hardwood imports, such as mahogany, have been losing market appeal in recent years as lighter colour finishes are coming back into vogue, or because customers have boycotted tropical timbers in the hope that this would reduce pressures on tropical rain forests. These customs and trends, if they continue, could tend to favour B.C. clear lumber and Canadian hardwoods. Eastern pine lumber is suited for rafters, and the production of wood pallets used in shipping.

5.4 Market Pulp

The EC will continue to rely heavily on pulp imports from a wide variety of producing regions to supply its substantial paper and paperboard industry.

In 1987, EC mills produced 35.8 million t of paper and board, and the Nordic countries 17.4 million t, for a total of more than 53 million t. European paper and paperboard producers imported more than 10.9 million t of pulp in 1987 to furnish their production requirements.

The forecast is for this 53 million t of paper and paperboard production to increase to about 85 million t by the year 2010. Even allowing for the high proportion of waste paper used in Europe (45 to 50 per cent), and increases in filler components, an additional 15 to 20 million t of paper-grade pulps will be required to meet the forecast levels of production.

The Nordic countries will continue to supply the EC with high quality grades of market pulp. However, the established European paper and paperboard producers will have to purchase most of their incremental supplies from elsewhere. In order to compete successfully with Nordic paper producers, EC domestic producers will direct as much of their pulp purchases as possible to the lower cost supply sources.

The national European paper industries are collectively expanding, and the ongoing wave of mergers and acquisitions will continue. An assured and long-term supply of market pulp is imperative for their success and Canadian suppliers will have the potential to maximize and even

increase their participation in meeting this need.

As EC manufacturers strive to secure their pulp supply through affiliated arrangements, this is likely to produce increasing pressure from Europe for ownership of, or affiliation with, Canadian pulp mills.

Alternatively, Canadian producers might invest in new non-integrated facilities in Western Europe. Canadian market pulp suppliers will be faced with further erosion of the number of non-integrated/affiliated customers, which will affect their distribution strategy in the EC.

Since Europe is the largest market for imported pulp, its pricing sets the pace internationally. Currency movements favourable to Canada have allowed Canada to meet competition head on and have caused declining capacity utilization in Scandinavia. This Canadian advantage is related primarily to exchange rates and masks the relative age and inefficiency of Canadian mills compared to those in Sweden. Further currency movements could, therefore, quickly reverse the Canadian advantage.

Overhanging the international pulp markets in the future is the rapidly growing supply of hardwood pulps from non-traditional suppliers such as Portugal, Spain, Chile, New Zealand and Eastern Europe. The trend for recycling can also be expected to have an impact on market pulp; how that factor will affect the industry is only now being recognized.

5.5 Newsprint and Other Paper

Paper production in the EC is projected to continue to advance into the 1990s at an average annual rate of around 2 to 3 per cent.

The pace of recent investments in new papermaking facilities has accelerated throughout the Community, but particularly in the Federal Republic of Germany, the Netherlands, Belgium and the U.K., confirming the industry's growth potential. Projects scheduled for completion through 1990 (most of them integrated into pulp production) involve more new capacity than those completed during the previous three years. Newsprint, graphic papers and hygienic and sanitary papers account for the majority of new investment.

The U.K. industry, which suffered a long-term decline into the 1980s, has now restructured and is enjoying one of the fastest growth rates.

These investments will continue to mean an increase in the average unit size and productivity of paper mills. Both rose steadily during the 1980s, as witnessed by the steady decline in the number of operating mills coupled with growing production. This is also seen in the sharp increase in average unit capacities of the paper and board machines. The gap in productivity and unit size between the EC and Nordic and North American mills is rapidly closing for key grades. In certain key grade sectors, such as coated graphic papers, the EC's productivity and average mill size is on a par with international competitors.

6. EUROPE 1992: STRATEGIES AND ACTIONS BY CANADIAN FIRMS

6.1 Maintain Competitiveness

It is important to realize that in the international environment of the 1990s, a more efficient and internationally competitive industrial base will be critically important for future Canadian success in the EC, as will ongoing efforts to ensure an adequate fibre supply.

Canada's principal forest product competitors in the EC, the Nordic countries, are leaders in technology, product innovation and international marketing and enjoy preferential access to the EC.

New competition from non-traditional suppliers, such as Chile and Brazil, is also increasing in a number of product areas.

6.2 Move into New Product Areas

The success of the EFTA producers, particularly the Nordic countries, illustrates that value-added production can be achieved, and profits sustained, even under adverse conditions such as increasing fibre costs and foreign exchange uncertainty. In the long term, the Nordic example may prove to be an invaluable lesson in reformulating strategy for the Canadian industry as new commodity suppliers emerge in the world driving the Canadian industry into new product areas.

6.3 Track the Strategies Adopted by Nordic Competitors

EFTA companies know their competitiveness is challenged by the EC internal market. As a result, they tend to be remarkably advanced in strategy-making for the internal market. Although Nordic forestry companies have adopted different strategies, they have all taken a strategic, long-term approach to the evolving EC marketplace. For example:

- MoDo, the second largest Swedish pulp and paper group, devised a detailed political and commercial forecast of the effects of the internal market before creating its own mergers and acquisitions strategy;
- ASSI, another Swedish packaging and paper group, will rely on national rather than pan-European marketing structures: its emphasis is all on human resources;
- SCA, one of Sweden's big three forestry sector companies, has based its expansion to meet competition around a move to value-added products;
- Tampella, a diversified forest products and machinery group, considers that new marketing and distribution structures will be the key to competitiveness after 1992.

To maximize trading opportunities in the EC, Nordic producers have pursued downstream integration of paper and board distribution outlets in the EC. These include ownership of papermaking facilities (Norland, Star, Shotton, and Thames Board), joint ventures in Europe (SCA-PWA, Holmens-MD) and downstream integration of distribution channels (MoDo and SCA). In addition there has been EC involvement in Nordic pulp production (Feldmuehle-Norrsundet).

Relative to the U.S. and Nordic producers, there has been limited investment in production in Europe by Canadian firms, although there has been increased activity over the past few years.

6.4 Anticipate Developments

Environmental issues are important, and attention must be given to how environmental policy evolves in the EC as it relates to the global ecology. A ban on pulp produced by processes exceeding certain emission requirements is a potentiality that must be considered.

Consumers in both the EC and in North America are demanding greater use of recycled fibres. The result is a profound impact on producers and markets. Some Canadian producers have already developed recycling capacity; others will have to follow.

Significantly increased lumber supply from certain EC countries is expected due to accelerated harvest of acid-rain damaged forests and due to increased subsidized reforestation and afforestation of agricultural land. For example, a new Forestry Action Program has been adopted by the Council, which provides increased funding of the development, protection and enlargement of the EC's forests. (See Appendix I.) However, in the long-term the EC's demand for fibre will far exceed the growth of its forests.

These developments hold the potential for selective trade-restrictive measures by the EC in the future.

6.5 Follow Developments in European Legislation

With respect to the new European-wide standards, Canadian industry should work with the Canadian government and industry allies in the EC to ensure:

- comment on draft standards when issued for public comment as is soon to be the case with TC124 and TC112;
- non-discriminatory access for Canadian products to EC testing and certification procedures; and
- mutual recognition of certification and testing.

6.6 Evaluate EC Investment Opportunities

Canadian forest product companies may be missing a limited time frame opportunity to secure a stronger position in European economic development and market access through investment in European facilities. Abitibi, Stone, MacMillan Bloedel and Noranda are taking or have taken initiatives in this direction, but U.S. and particularly Nordic companies are in the lead. (See Appendix J.) Such investments could have the following benefits:

- positioning within the EC industrial base and increased proximity to Europe 1992-related trade policy;
- certain entitlements such as government procurement in EC Member States;
- market acceptance and access to information as an inside player;
- advantages of vertical integration and product diversification;
- securing of new raw material sources in a scenario of future resource limitations, opportunities here more evident in the pulp and paper sectors, especially for larger companies.

Canadian companies should consider these benefits and assess opportunities. Canadian investment internationally should not be viewed as counterproductive to the interests of Canadian industrial development. Such investment strengthens Canadian companies and makes them greater multinational contenders in the expanding international environment. There are often economic limitations to expansion in Canada, certainly evident in the resource sectors, where raw material availability is critical and where future growth depends on securing world resources.

CONCLUSION

The Single Market program will accelerate EC economic growth and lead to increased demand for all categories of forest products. Moreover, the markets for many forest products in the EC still have considerable room for growth, since per capita consumption in these markets often falls well short of North American levels.

The result is that, even with aggressive afforestation and reforestation programs, the EC will continue to be a major net importer of forest products. Consequently, the overall volume of traditional forest products exports to the EC is expected to remain steady or to increase.

Pulp and newsprint producers could benefit from the increased economic growth in the EC which should increase demand for paper. Softwood lumber exporters could also benefit from increased economic growth and from the adoption, on an EC-wide basis, of standards and other regulations. If these were consistent with Canadian supply capability, it could open up a huge unified market of 325 million people to Canadian producers.

In addition, the EC will offer significant scope for market development and diversification in "non-traditional" forest products from Canada.

However, a number of specific EC directives and decisions related to the 1992 agenda could have a potentially disruptive impact on some segments of the Canadian industry.

In particular, if developments related to Eurocode 5 (which deals with "Common Unified Rules for Timber Structures") were to result in new European standards and grading rules inconsistent with Canadian norms, Canadian wood product producers would have to either adjust their production or drop out of the market. Although it is unlikely that total exports would decline, there could be significant shifts in the pattern of trade from Canada. The newly evolving European fire test standards also pose uncertainties for some Canadian suppliers, as does the present lack of clarification concerning EC arrangements for the testing and certification of Canadian wood products.

Another set of developments related to the Single Market that could affect the future pattern of Canadian exports of forest product exports to the EC is the restructuring taking place in the paper industries throughout the EC. For example, as the process of mergers and acquisitions results in fewer but much larger firms in the EC's paper sector, an assured and long-term supply of fibre will become an important consideration to their long-term ability to compete. Although technical advances and increased availability have promoted the use of recycled fibre in the Community, EC manufacturers will continue to depend heavily on imports of market pulp and will strive to secure their supply through affiliated arrangements where possible. These developments could have important implications not only for the strategies pursued by Canadian market pulp suppliers in the EC, but could also affect the market opportunities for Canadian exporters of some types of paper.

In addition to these 1992 developments, Canadian exporters to the EC will also be faced with issues related to phytosanitary regulations, environmental regulations, and the effect of the EC's forestry action program, which could affect market access for some forest products to the EC.

It is important to stress that these specific risks notwithstanding, the

overall outlook for Canadian forest products exports to the EC is very bullish.

Continued export success, however, cannot be taken for granted. The Nordic countries will remain formidable competitors, and competition is increasing from new supplier countries in a number of product areas. The keys to success for Canadian firms in the new European market will be linked to their ability to maintain their competitiveness through technology, product innovation and international marketing.

Opportunities in the EC will exist not only for Canada's large world-scale producers but also for other innovative producers and marketers. However, only Canadian companies that are prepared to actively seek out opportunities and take a strategic approach to the European market are likely to be successful over the long term.

Investment opportunities must be actively sought out. The restructuring taking place across the EC industry will ultimately result in repositioning. In some cases, strong EC-based companies will emerge; in other instances, competitors such as those from the Nordic countries will establish an even greater hold on market share. A strong position today in the Community may very likely determine penetration tomorrow in the emerging East European market.

APPENDICES

APPENDIX A

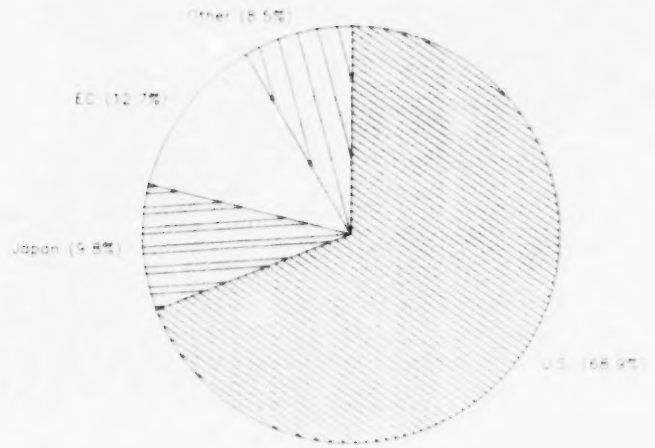
Leading Canadian Exports to the EC in 1988

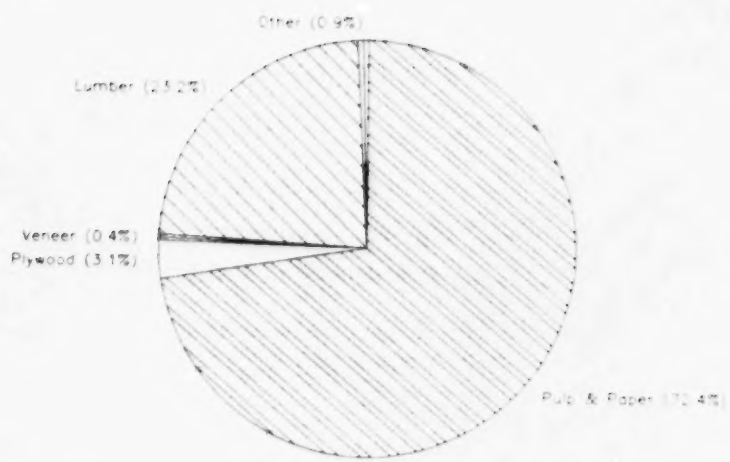
	Percentage of Total	$ Exports
Forest products	**30.4**	**3 237 767 553**
Wood pulp	15.4	1 637 636 542
Softwood lumber	6.9	732 803 492
Newsprint	3.4	363 416 179
Mineral products	**15.3**	**1 625 023 731**
Iron ores, concentrates	4.0	430 685 494
Zinc ores, concentrates	2.7	291 742 841
Asbestos	1.0	105 360 258
Machinery and equipment	**11.1**	**1 186 574 768**
Computers and components	4.6	488 022 324
Telephone-related	0.8	88 531 637
Printed circuits	0.1	15 042 464
Base metals and products	**9.9**	**1 051 616 324**
Nickel	2.3	249 317 653
Aluminum	2.2	238 629 240
Copper	2.1	225 357 472
Animal, vegetable products	**13.4**	**1 431 253 327**
Fish, seafood	3.3	347 520 972
Wheat, barley, corn	2.7	290 490 873
Linseed	1.0	105 287 304
Chemicals, related products	**7.2**	**767 893 086**
Uranium, isotopes	1.8	194 616 238
Plastics, rubber	0.9	91 101 610
Phosphorus	0.4	41 037 647
Vehicles, aircraft, vessels	**4.2**	**444 000 615**
Aircraft and parts	1.7	180 289 158
Cars, trucks and parts	1.1	111 873 778
Flight simulators	0.9	100 709 651
Other	**8.5**	**903 104 747**
Gold (non-monetary)	1.0	107 935 414
Photocopiers	0.7	69 497 197
Total Exports	**100.0%**	**10 647 234 151**

Source: Statistics Canada data, reaggregated by External Affairs and International Trade Canada.

APPENDIX B

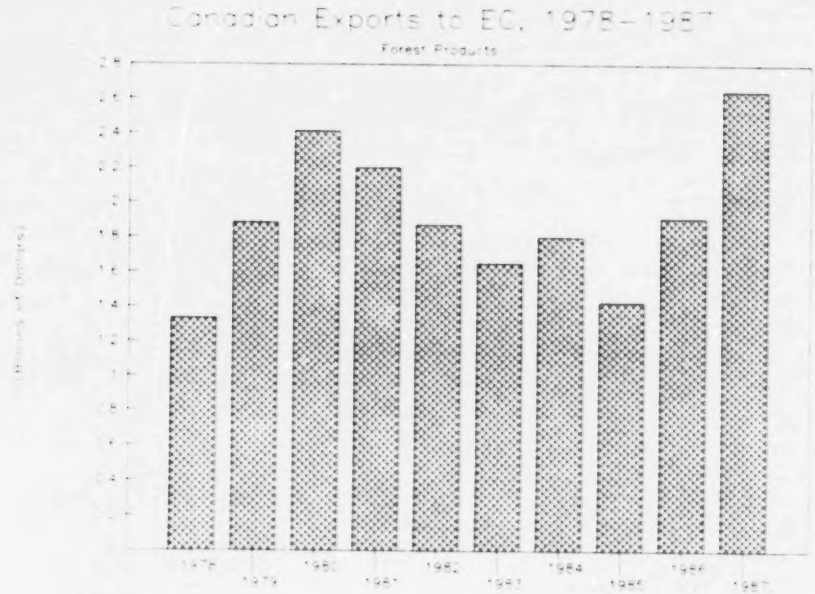
Canadian Forest Products Exports

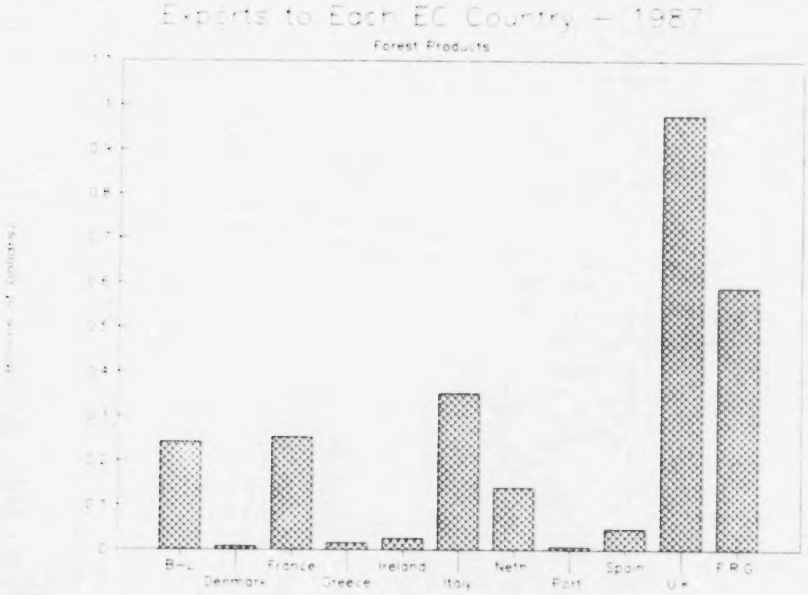




APPENDIX C

Canadian Forest Products Exports to the EC





APPENDIX D

The EC Newsprint Quota

History

In 1958, as part of the Kennedy Round of GATT negotiations, the EC agreed to allow the duty-free importation of a specific amount of newsprint annually from non-EC countries. The initial GATT-bound quota was set at 625 000 t.

The quota was increased to 1.5 million t in 1973 when the U.K., Denmark and Ireland joined the EC.

On January 1, 1984, newsprint exports from Finland, Norway, Sweden, Austria and Switzerland (which along with Iceland make up EFTA) were granted unlimited duty-free access to the EC as a result of individual free trade agreements the EC signed with these countries.

In planning for the unlimited access negotiated with the EFTA countries, the EC unilaterally declared the 1.5 million t duty-free quota null and void in late 1983 and opened a provisional duty-free quota for 500 000 t. This unilateral action was clearly contrary to the EC's obligation to maintain an annual duty-free quota of 1.5 million t open to all Most Favoured Nation (MFN) suppliers of newsprint.

In March 1984, Canada responded to this EC move by requesting that a panel of experts be established, under GATT, to examine whether the EC had impaired Canada's GATT-bound rights.

The panel found that the EC action constituted a prima facie case of nullification or impairment of benefits which Canada was entitled to expect under GATT.

In the discussions which followed, it became clear to Canadian negotiators that, although the EC's waterlining requirements on imported newsprint had always been waived (since newspaper publishers considered waterlined paper to be flawed), the EC might not waive the requirement in the future.

With this implicit threat in mind, Canada agreed with the EC to set the duty-free quota for 1985 at 650 000 t of which 600 000 would be reserved for Canada.

Present Quota Arrangements

- Overall quota is 650 000 t (bound under GATT).
- By arrangement between Canada and the EC, 600 000 t is allocated to Canada, the remaining 50 000 t to other non-EFTA countries.
- If by November 30 of each year it is expected that either allocation is unlikely to be used by year-end, it is then made available for imports from all non-EFTA countries.
- If the 650 000 t quota is exhausted by December 1, and the EC has **not** opened an autonomous duty-free quota for at least an additional 30 000 t, the EC must open a

supplementary quota of 32 500 t for unwaterlined newsprint at a duty of 4.9 per cent.

- Waterlining has always been waived for newsprint imported under the quota with the current exception of non-EFTA newsprint shipments to Italy.

In recent years EC officials have allocated a large part of the quota to EC Member States based on past shipping patterns and discussions with publisher organizations. The unallocated portion of the quota is called the "reserve."

In 1990, the Member State quota allocation system will end. Thereafter, it will be an EC quota and approval for customs clearance of Canadian newsprint shipped under the quota must be obtained from EC headquarters in Brussels or from EC headquarters through Member States' customs and excise officials.

APPENDIX E

Pinewood Nematode, Kiln-Drying, and the EC Market for Softwood Lumber

The Issue

Pinewood nematode (PWN) is a microscopic organism which the EC perceives as a threat to its forests. Based on this concern, EC plant health authorities are considering new regulations to control imports of green softwood lumber from Canada. One possible measure is a move towards permitting entry only to lumber that has been kiln-dried.

Background

Of the $730 million of Canadian softwood lumber shipped to the EC in 1988, an estimated $650 million was green with the balance being kiln-dried. Recent developments in the EC are raising concerns about the future of Canada's green lumber exports.

The scientific community has recognized the existence of PWN in certain declining or dead softwood species, but there is disagreement over the potential for its spread. Most recent studies indicate that the risk of the presence of PWN in shipments of Canadian softwood lumber which has undergone a rigorous inspection under the Mill Certificate Program is virtually negligible, and there is an even lower probability that it could then be transmitted to European forests. In spite of this evidence, some EC Member States are pressing for a ban on green lumber citing the need for zero-risk probability.

Irish Action

While the European Commission is deliberating on this issue, the government of Ireland has unilaterally imposed its own ban on all green coniferous wood from Canada (as well as from China, Korea, Japan and the U.S.). Interventions from the Canadian government delayed the Irish measure for a time. However, as of December 1, 1989, the Irish ban came into effect and all subsequent shipments will have to be kiln-dried. In 1988, coniferous lumber shipments to Ireland totalled $12 million, most of it green. While significant, the greater danger is the threat that such a measure will be adopted EC-wide.

British Market

The U.K. continues to be Canada's major market, accounting for 67 per cent of softwood lumber shipments to the EC in 1988. Canada has concluded an accord on plant health with the U.K. under which U.K. authorities will continue to accept Canadian green lumber if shipments are accompanied by a "Certificate of Debarking and Grub Hole Control" (commonly referred to as an "enhanced mill certificate", or Mill Certificate Program), which is issued as part of the normal quality control/grading inspection process at a mill that has been approved by Agriculture Canada.

EC Position

EC officials appear to be following a responsible line in assessing the available research data on PWN on their merits. They have not been supportive of the Irish move prior to the completion of the EC's own evaluation. Earlier in 1989, an EC Fact Finding Group was provided with an extensive cross-Canada tour to examine sawmill and shipping operations, to be briefed first hand on Canada's Mill Certificate Program, and to discuss the issue with government, industry and scientific personnel. Its report and recommendations will be discussed in early 1990 by the EC Standing Committee on Plant Health and by the European Council.

Canadian Position and Assessment

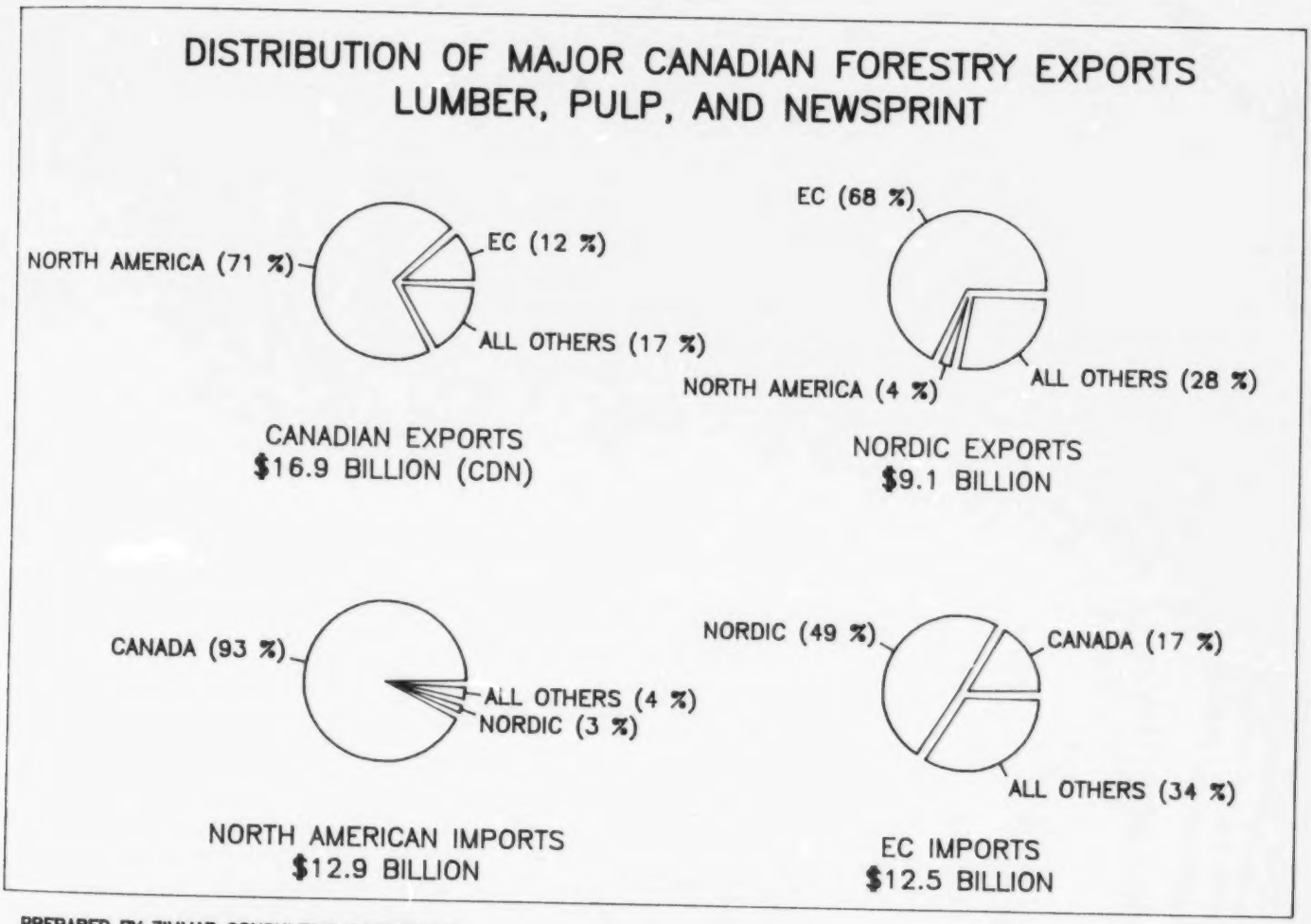
In the interim, the Canadian government has made Ministerial and diplomatic interventions, both to the EC and to Member States. Canada is providing EC officials with detailed information and briefings on the prevalence of PWN in Canada, the Mill Certificate Program, and an assessment of the risk of transmission of PWN to EC countries in order to assist EC officials in their consideration of any phytosanitary regulations.

The Irish kiln-drying regulation is viewed as an unnecessary barrier to trade, and it is widely recognized that Ireland is embarking on a wider program of support to its domestic forest industry. Although certain EC Member States support the Canadian position, such support is by no means unanimous.

While the ultimate outcome will have to await the deliberations and decision of the European Commission and Council, the EC has repeatedly advised Canada that it is only a matter of time before all softwood lumber imports must be kiln-dried. Canadian provinces and industry associations have been kept abreast of this issue and will continue to be provided with current information and assessments.

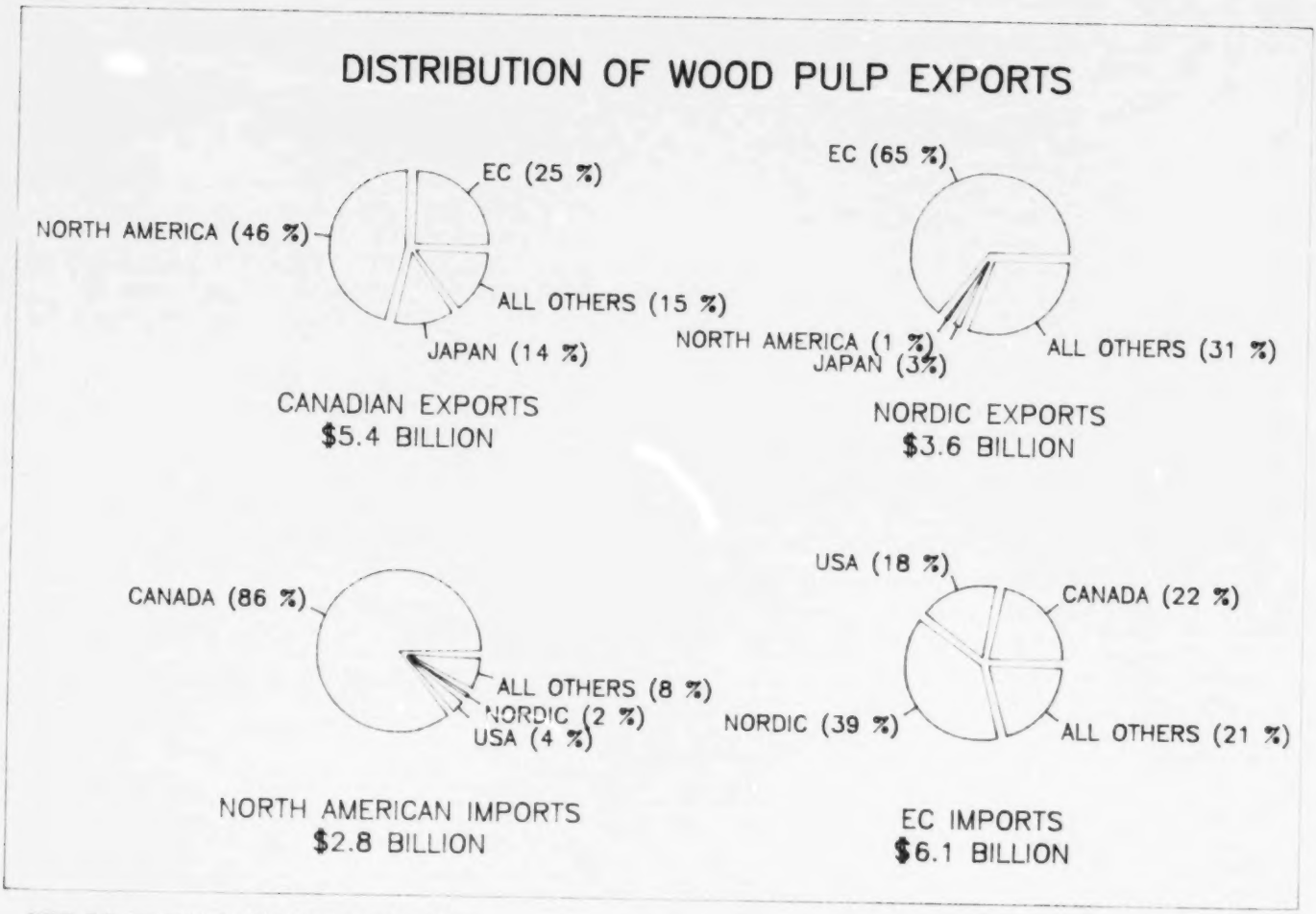
APPENDIX F

Major Canadian Forestry Exports and Competition



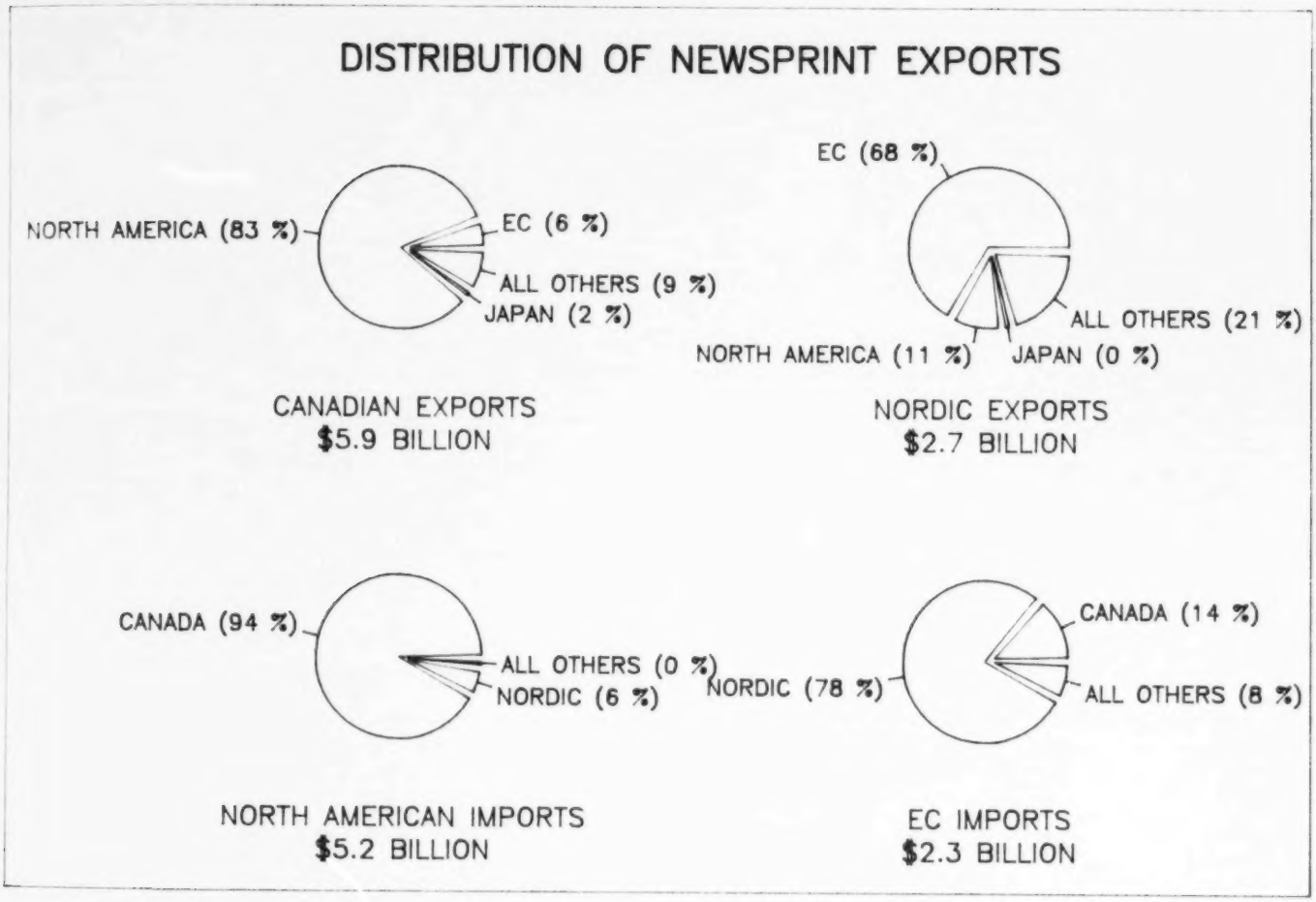
PREPARED BY ZIMMAR CONSULTING PARTNERSHIP
SOURCE: 1986 FAO DATA AND ZCP ESTIMATES

APPENDIX F (Continued)



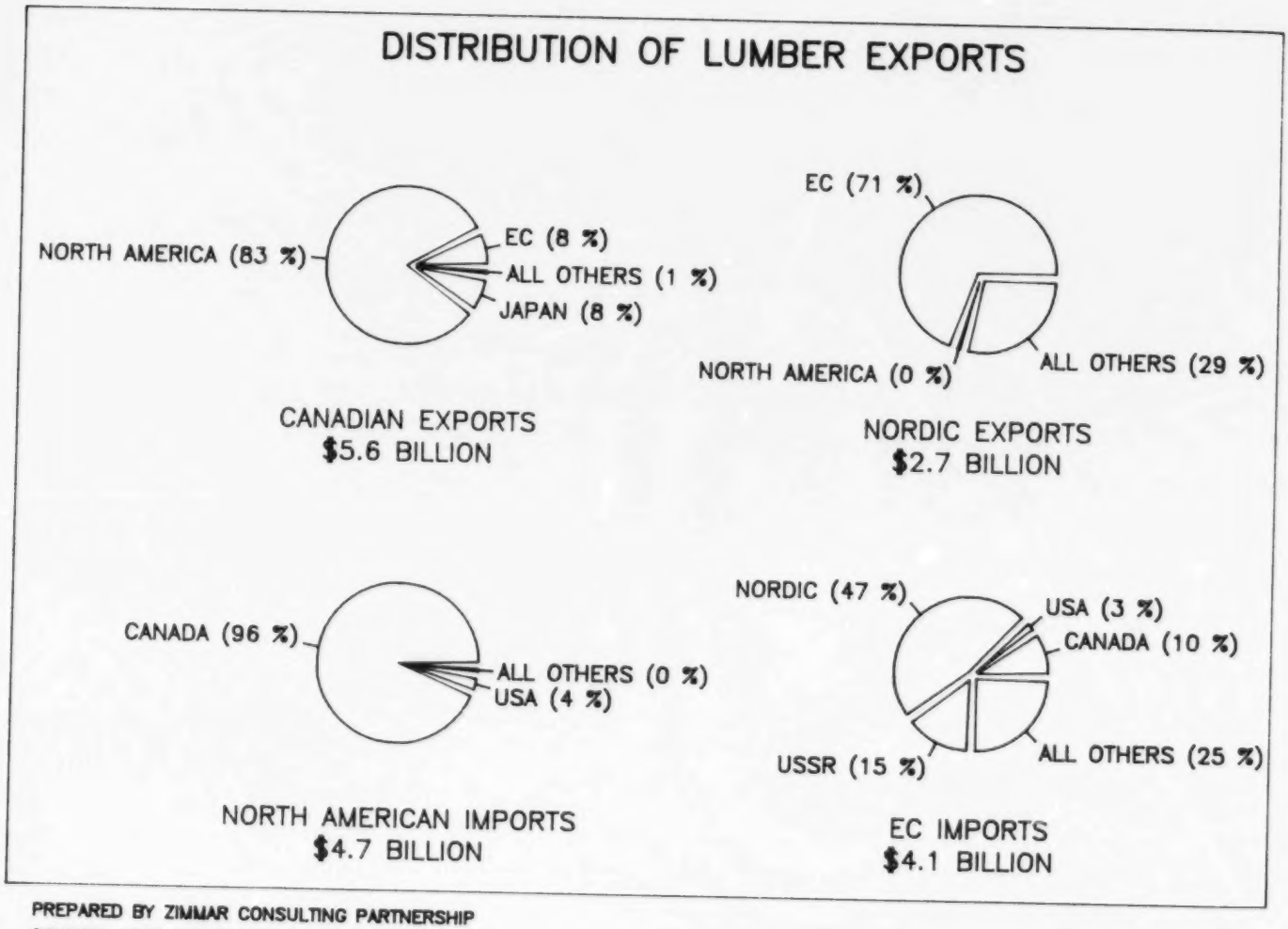
PREPARED BY ZIMMAR CONSULTING PARTNERSHIP
SOURCE: 1986 FAO DATA AND ZCP ESTIMATES

APPENDIX F (Continued)



PREPARED BY ZIMMAR CONSULTING PARTNERSHIP
SOURCE: 1986 FAO DATA AND ZCP ESTIMATES

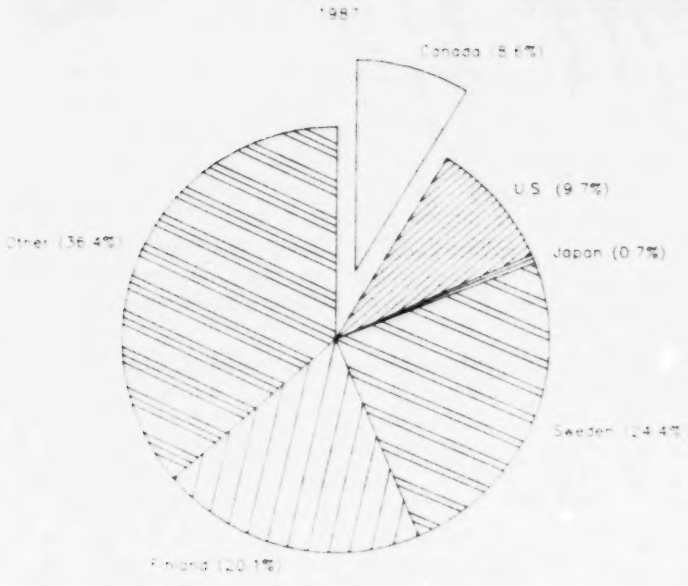
APPENDIX F (Continued)

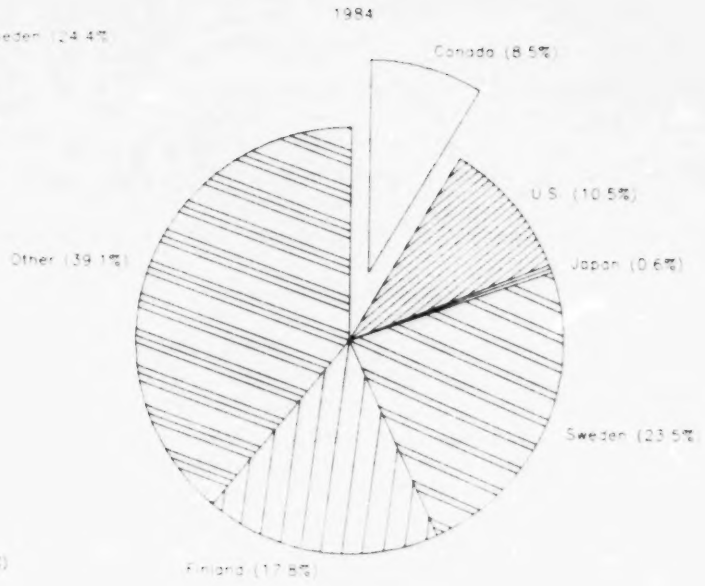


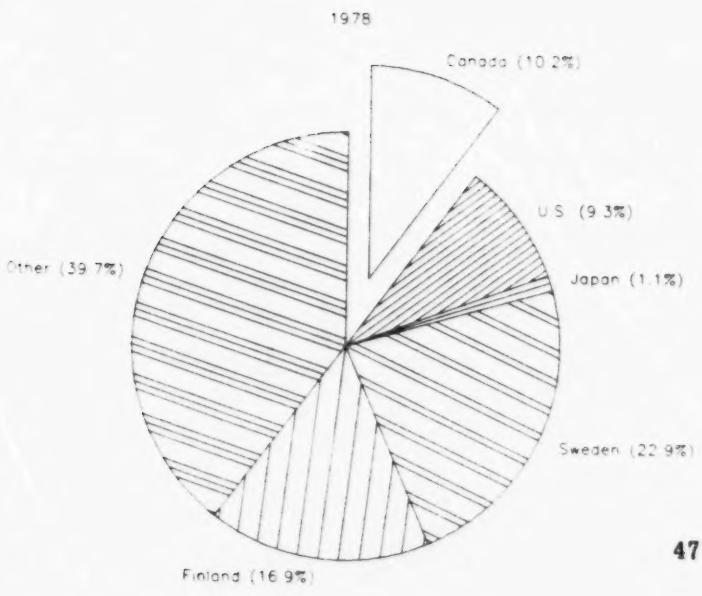
PREPARED BY ZIMMAR CONSULTING PARTNERSHIP
SOURCE: 1986 FAO DATA AND ZCP ESTIMATES

APPENDIX G

EC Forest Products Imports







APPENDIX H

European Standards on Timber

Background

As part of the "1992 Harmonization" the EC has asked CEN to draft standards to support the Construction Products Directive. The main objective of the Construction Products Directive is to eliminate barriers to trade caused by national rules and regulations while at the same time maintaining acceptable levels of health and safety. It applies to the construction industry in the EC.

CEN is the European Standards Organization and comprises 18 countries: the 12 EC countries plus the 6 EFTA countries (Austria, Finland, Iceland, Norway, Sweden and Switzerland).

With regard to harmonization in timber, five main CEN technical committees (TCs) have begun work. These are:

CEN TC 38	-	Wood Preservation
CEN TC 103	-	Timber Adhesives
CEN TC 112	-	Wood Based Panels
CEN TC 124	-	Timber Structures
CEN TC 175	-	Round and Sawn Timber

The organization, work program and details of progress of the five committees follow:

CEN TC 38 - Wood Preservation

CEN TC 38 is responsible for drafting standards on wood preservation. It has a French Convenor and Secretariat.

The TC has four main working groups (WGs); another six deal with specific test methods.

WG	Title	Convenor
1	Hazard classes	France
2	Natural durability	Germany
3	Performance of treated wood	Sweden
4	Performance of preservatives	U.K.
5	Field of testing out of ground contact	U.K.
6	Hylotrupes tests	Switzerland
7	Particleboard and plywood	Germany
8	Soft rot tests	Germany
9	Preventive efficacy	France
10	Lyctus tests	France

Progress

TC 38 has a large broadly based program of work, is very active and has made good progress on many items. This applies particularly to the standards in WG1, WG2, WG4 and WG5.

CEN TC 103 - Adhesives for Wood and Derived Timber Products

CEN TC 103 is responsible for drafting standards on adhesives for use with timber. It also deals with adhesives for plywood manufacture, but not particleboard types.

CEN TC 103 will draft supporting standards for Eurocode 5 on adhesives and co-operate with CEN TC 112 WG2 on adhesives for plywood.

Adhesives for materials other than timber are dealt with by CEN TC 193.

TC 103 is a single committee with no working groups. The Chairperson is A. van der Velden from the Netherlands and the Secretariat is held by Dr. Nowacki of the British Standards Institute (BSI).

Progress

After a slow start the committee is now making progress and has advanced drafts on the first three standards in its program. First drafts of items 4 and 5 should be available for discussion at the next meeting, which has yet to start on plywood adhesives.

CEN TC 112 - Wood Based Panels

CEN TC 112 is responsible for drafting standards on wood based panels in support of Eurocode 5 - Timber Structures. Wood based panels will also need to satisfy the requirement regarding hygiene, health and environment with regard to formaldehyde emission. In addition, CEN TC 112 has agreed that it should also draft standards covering the totality of the "open market" as well as those necessary for structural support.

CEN TC 112 will draft supporting standards of similar nature to those drafted in BSI such as BS 6566 Plywood; BS 1142 Specification for Fibre Building Boards; and BS 5669 Specification for Wood Chipboard and Methods of Test for Particleboard.

Progress

This committee has a very wide and large program covering a range of very competitive well-established industries in different countries. It was inevitable that many "political" problems would emerge and that these would affect "technical" decisions. Gradually such problems are being resolved.

"Political" problems have centred on the "non-mandating" by the CEN of the program of work on fibre boards, the creation of a working group on formaldehyde emission and cement bonded particleboard and the delay in getting the program of work agreed by CEN.

Technical problems have arisen in the structural testing of wood based panels and the use of simple rather than large chamber methods for assessing formaldehyde emission.

Gradually all these problems are being resolved but they will result in delays in some of the work.

A number of basic test standards have been agreed within the working groups and should be sent out next year as European pre-standards (ENV).

The TC has considerable ground to make up on solid timber (TC 124) on the structural application of wood based panels in support of Eurocode 5.

CEN TC 124 - Timber Structures

CEN TC 124 is drafting standards on solid and laminated timber in support of Eurocode 5 - Timber Structures. CEN TC 124 will draft supporting standards of a similar nature to those drafted in BSI on timber sizes, stress grading, glulam products and a variety of testing standards.

At the last meeting of TC 124 in Lisbon, a fourth working group -- WG4 Timber Connectors -- was created. This group will draft standards detailing traditional timber connectors such as tooth plate, split ring and shear plates to enable these to be referenced for design purposes in Eurocode 5.

Progress

The following drafts will be submitted to the TC 124 meeting in October in Paris for approval to go out to the Member States as ENVs 1, 2, 3, 5, 11, 12, 15, 16, 19, 18, 20, 21, 22 and 24. They are being circulated as ENVs to the Member States who will make comment before their final approval as European standards (ENs).

CEN TC 124 has been asked by CEN TC 175 to develop standards for transmission poles.

CEN TC 175 - Round and Sawn Timber

CEN TC 175, a recently formed European standards committee, is to draft standards on round timber (including sawlogs) and timber for all non-structural applications. A first meeting of CEN TC 175 was held in France in June and agreed to the following:

1. The title of the committee should be **Round and Sawn Timber.**

2. The scope for the work should be round timber and sawn timber, including planed timber for all uses except for timber structures.

   (This was a broadening of the original proposal for sawlogs to include roundwood generally.)

3. Countries should nominate experts for the four working groups before October 1, 1989.

The working groups will then prepare draft programs of work (based generally on the submissions of the various countries to this meeting) but without allocating priorities.

4. A further meeting (February 1990) would then consider these programs and allocate priorities to the work.

5. It was agreed that the work should cover all non-structural uses of solid timber to avoid the creation of additional TCs.

6. It was agreed that TC 124 should be asked to deal with transmission poles.

7. One of the main points of contention was that planed timber should be considered as the sawmill output rather than as a specific use requirement. This was particularly pressed by the Nordic countries.

APPENDIX I

EC Forestry Action Program

The EC Agriculture Council has adopted a Community action program in the area of forestry, composed of seven regulations and one decision. There will be an **initial stage of five years** during which **780 million ECUs will be made available** in favour of forests; i.e., nearly double the amount already spent on forests. The program was adopted unanimously. It introduces the following measures:

Afforestation of farmed land. Introduction of an annual maximum premium of 150 ECUs per hectare for a period of 20 years to compensate for income losses of farms that are involved in reforestation. Community participation will be at 50 per cent in the least favoured zones and 25 per cent in the others. This premium will replace the compensatory allowance in the case of afforestation in the least favoured zones, and can be combined with the set aside program. In this case it will be only 50 ECUs. Other adjustments are possible to allow for the smoother application of the measure.

Development and valorization of forests in rural zones. Measures in favour of forests can be taken in zones which are benefiting from programs of rural development; these measures could be in different forms: creation and improvement of nurseries, afforestation and improvement of forests, extension of the restoration of forested areas in zones threatened by erosion or flooding, replacing of forests destroyed by fire or natural catastrophes, related works (forest roads, clearings, reparcelling), forest fire protection measures, creation of foresters associations, programs to raise public awareness and advertising campaigns. The level of community involvement has yet to be decided.

Processing and marketing aids. These aids, which are limited to small- and medium-sized enterprises, apply to wood and cork, for all woods and all operations before sawing, i.e., from felling to stockpiling, including protection treatment and drying of the wood. The level of EC involvement will be that of already existing agriculture relations.

Setting up of a full-time forestry committee. This consultative committee will advise the Commission on its strategy. There are already two other management committees in this area, one against atmospheric pollution and the other against forest fires.

Protection of forests against atmospheric pollution. A change in the existing measures is needed, concerning improvement of the paedological conditions, creation of an information program on the state of forest health, an evaluation of different damages, maintenance and restoration measures. Community participation in the cost of the projects is set at 50 per cent and the allotted budget has been increased from 10 to 17 million ECUs.

Protection against forest fire. The existing regulation has been changed to include new actions such as experimentation pilot projects of new prevention and fire fighting techniques and technology, the development of fire fighting materials and products, the organization of courses and seminars of information

and training; follow-up and co-ordination of efforts concerning the protection of forests; an increase in EC participation in the cost of the projects (up to 50 per cent). The allotted budget has been increased from 20 to 31 million ECUs.

European system of forestry information and communication. The aim is to collect information on the structure and the functioning of the forestry sector and to put into operation, and then to follow up on, the applied measures under the framework of the program. The envisaged total cost for the first four years is 3.9 million ECUs.

APPENDIX J

Recent Investment Activity in the EC Forest Products Industry

Company	Origin	Investment
Noranda	Canada	Owns 100 per cent of Highland Waferboard Mill, Forest Sales Scotland, the U.K.'s only waferboard producer.
Stone Consolidated of Canada	Canada	Owns 100 per cent of Bridgewater Paper (U.K.) which accounts for about 35 per cent of the U.K.'s total newsprint output.
Abitibi-Price	Canada	Currently assessing feasibility of a joint venture with U.K. publishers for the construction of a 200 000 t per year plant in Scotland.
MacMillan Bloedel	Canada	50 per cent interest in U.K. Corrugated PLC, one of the country's largest corrugated box manufacturers (10 plants) in partnership with Jefferson Smurfit (Ireland) and Swensa Cellulosa. 30 per cent interest in KNP (Netherlands) which has coated papers mills in the Netherlands and Belgium.
Stora	Sweden	Expanding its pulp mill at Figueira da Foz, Portugal, from 240 000 to 600 000 t annual output with a 30-month, 4-billion crown investment. This represents the largest single investment ever carried out in the pulp sector in Europe.
United Paper Mills	Finland	Subsidiary, Raflatac, has initiated the Mills construction of a $28.3 million mill to manufacture label base stocks in Pompey, France.
United Paper Mill	Finland	Completed plant expansion in Shotton, Wales.
Enzo-Gutzeit	Finland	Has received approval to purchase French cardboard manufacturer R. Soustre et Fils.
Fletcher Challenge	New Zealand	Has purchased U.K. Paper.

Jefferson Smurfit	Ireland	100 per cent C.D. Haupt Papier and Pappefabrik. Production capacity of 250 000 t of cardboard from recycled fibre.
Torras Pepel	Spain	An agreement has been signed for Torras Pepel to become the major shareholder of the Belgian group Intermills. They will invest BF700 million.
La Rochette	France	Has acquired 98 per cent of the Coy Bianchi, an Italian firm specializing in board packing.
Bertelsmann	Germany	Plans to invest DM400 million in its Italian subsidiary Cartiere del Gards.
KNP	Netherlands	Recently acquired 49 per cent of Leykam-Murztaler, Austria's largest paper paper producer for its printing industry.